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IN THE

Supreme Court of the United States

OCTOBER TERM, 1982

CATHOLIC BISHOP OF CHICAGO

Petitioner,

v.

F.E.L. PUBLICATIONS, LTD.

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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QUESTIONS PRESENTED

1. Whether respondent publisher misused its copyright monopolies by

(a) licensing the right to copy one hymn only on the condition that the right to copy the publisher's entire 1,400 hymn repertoire is purchased; and

(b) licensing the right to perform hymns at not-for-profit religious services, a right not granted by the copyright law; and

(c) licensing works and collecting royalties for hymns in the public domain;

and whether such misuse is a complete defense to this case.

2. Whether petitioner's right to a jury trial was denied when the district court granted the petitioner summary judgment finding a *per se* tying violation and the court of appeals reversed that ruling and *sua sponte* entered judgment for the publisher on a rule of reason analysis without giving petitioner any opportunity to introduce evidence on the unreasonableness of the trade restraint.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

The Catholic Bishop of Chicago ("Bishop"), respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit, entered in this case on March 25, 1982, reversing the decision of the district court granting summary judgment to petitioner.

OPINIONS BELOW

The opinion of the court of appeals is not yet officially reported and is reprinted as Appendix A to this Petition. The petition for rehearing *en banc* was denied without opinion. The opinion of the district court granting the petitioner's motion for summary judgment on his copyright misuse defense is not officially reported and is reprinted as Appendix B.

JURISDICTION

The judgment of the United States Court of Appeals for the Seventh Circuit was entered on March 25, 1982. A petition for rehearing *en banc* was timely filed, and was denied on May 17, 1982. This Court has jurisdiction to review the judgment of the Court of Appeals by writ of certiorari pursuant to 28 U.S.C. § 1254(1).

STATUTES AND CONSTITUTIONAL PROVISION INVOLVED

The Copyright Act of 1909, 17 U.S.C. § 1, provides in pertinent part:

> Any person entitled thereto upon, complying with the provisions of this title, shall have the exclusive right:
>
> (a) To print, reprint, publish copy, and vend the copyrighted work . . .
>
> (e) To perform the copyrighted work publicly for profit if it be a musical composition; and for the purpose of public performance for profit, and for the purposes set forth in subsection (a) hereof, to make any arrangement or setting of it or of the melody of it in any system of notation or any form of record in which the thought of an author may be recorded and from which it may be read or reproduced . . .

The Copyright Act of 1976, 17 U.S.C. § 110, provides in pertinent part:[1]

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[1] F.E.L.'s copyright misuse initially occurred under the Copyright Act of 1909, but continues to the present in violation of the Copyright Act enacted in 1976. Under the 1909 Act, the copyright holder was not granted the right to license not-for-profit performances. *Wihtol* v. *Crow*, 199 F. Supp. 682, 685 (S.D. Iowa), *rev'd on other grounds* 309 F. 2d 777 (8th Cir. 1962).

> Notwithstanding the provisions of section 106, the following are not infringements of copyright: . . .
>
> (3) performance of a nondramatic literary or musical work or of a dramatico-musical work of a religious nature, or display of a work, in the course of services at a place of worship or other religious assembly; . . .

Section 1 of the Sherman Act, 15 U. S. C. § 1, provides in pertinent part:

> "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. . . ."

The Seventh Amendment to the United States Constitution provides in pertinent part:

> In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by the jury shall be preserved, . . .

STATEMENT OF THE CASE

The Parties

Petitioner Catholic Bishop of Chicago is the legal entity of the Roman Catholic Archdiocese of Chicago. The Bishop is a corporation sole under a special article of the Illinois legislature, and owns all property within the 447 parishes of the archdiocese. (A. 1a)[2]

Respondent F.E.L. Publications, Ltd. is a publisher of Catholic religious music and the owner of more than 1,400 copyrights on hymns purchased from individual composers in exchange for royalties based on sales. (A. 2a)

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[2] All citations to the appendix are labeled (A.). The abbreviations used in this petition refer to affidavits, depositions and exhibits. Affidavits are identified by affiant's name and paragraphs. Depositions are identified by deponent's name followed by the page number. Exhibits are labeled as such.

Market for English Liturgical Music

In 1963, the Second Vatican Council revolutionized the traditional Latin mass in Roman Catholic worship. Vatican II mandated (1) that the mass be conducted in the vernacular (English in the United States) (2) that the congregation participate in the mass and (3) that the Church develop a new music tradition. (A. 20a) The District Court described the commercial opportunity that developed:

> From this need, a new market arose, a market for Catholic liturgy music in the English language. The Church, in an effort to maintain its independent identity, did not consider existing English hymns of the Protestant reform appropriate for use in Catholic religious activities. (A. 20a-21a)

The Catholic Church, unlike some Protestant denominations, does not have a printed national hymnal. (A. 2a) No one music publisher could meet the Church's post-Vatican II needs for new English liturgical music. Instead, publishers of English Catholic liturgical music offered licensing policies which permitted parishes to select and to copy the best hymns of each publisher for use in compiling custom-made parish hymnals. (Coughlin ¶ 23)

F.E.L., as owner of "some of the most popular religious copyrights in the country," was one of the first publishers to enter the market. (A. 21a) Prior to November 1972, F.E.L. licensed the right to copy its music at $.02 per copy-per song for the life of the copy. (A. 22a) Other publishers also offered permission to copy their music without charge or on a per song-per copy basis. (Coughlin ¶ 25)

F.E.L.'s Annual Copy License

In November 1972 F.E.L. introduced its Annual Copy License ("ACL"). (A. 22a-23a) Appendix C is a copy of the ACL. The ACL grants the user the right to copy any or all of F.E.L.'s 1400 hymns for a one year term for a fee of $100.00. (A. 40a *et seq.*) Article 4 of the ACL purports to grant the user "the right to perform the music and/or text at not-for-profit

performances for purposes of worship and/or classroom use. . ." Use of the copies is also restricted to "user's premises." (ACL, Art. 3-4). At the end of one year the licensee must either destroy all copies of F.E.L.'s music or renew the license, paying an additional $100.00 for another year. (ACL, Art. 8). At the time of suit, 30 parishes in the archdiocese had purchased the ACL. (A. 24a)

From 1972 through the filing of this suit in 1976, "the ACL [wa]s the only license offered to parishes which allow[ed] the parishes to use F.E.L. songs in a custom-made hymnal." (A. 2a) By contrast, other publishers of English Catholic liturgical music licensed the right to copy music on a per song-per copy basis without any requirement that the copies be destroyed. (Coughlin ¶ 24-25.) Some of these other publishers offered package licenses as well (*Id.*) but only F.E.L. exclusively offered a package license "to permit each parish to compile its own 'custom songbooks.' " (Fitz. Aff. ¶ 5-6.)[3]

Since the institution of the ACL, Chicago parishes have repeatedly requested permission to copy only a few of F.E.L.'s 1,400 hymns for parish hymnals. (DX I, Parish Letters.) Uniformly, F.E.L. rejected all requests for licensing on a per song "per copy basis for permanent inclusion in a hymnal." (A. 32a) F.E.L.'s policy, in the words of its President, Dennis Fitzpatrick, was "all or nothing." (Fitz. at 33-34) F.E.L. did "not grant a partial license," even if a parish wanted to copy only one song. (*Id.*)

F.E.L. informed parishes that only two alternatives to the ACL were available: purchase a One-Time-Use license or purchase a printed publication. (A. 23a) The One-Time-Use License, created for special events such as weddings or confirmations, cost a minimum of $10.00 and required that the

[3] F.E.L. licensed songs to commercial publishers (in contrast to parishes) on a per song-per copy basis without a destruction requirement. (Cook at 53.) Recognizing the market power of its more popular songs, F.E.L. charged commercial publishers more than twice the price to copy its "Blockbusters" than the price charged to copy F.E.L.'s "Medium Popular" and "Less Popular" songs. (DXC)

copies be destroyed immediately after use. (*Id.*) Printed sheet music cost a dollar a copy; 500 copies of one song would cost $500.00. The One-Time-Use License was not suitable for compiling permanent custom hymnals, and by the admission of F.E.L.'s president, printed publications were not a substitute for copying rights because "no publisher, in the print media alone, can satisfy the considerations of worship" and "traditional print publishing is superfluous and out-of-date and far too restrictive." (DX J; A. 2a)

Proceedings Below

The District Court

On September 20, 1976, F.E.L. filed this action, alleging copyright infringement under the 1909 Copyright Act and unfair competition under the Lanham Act and Illinois law. (A. 3a) The Bishop's answer alleged affirmatively that F.E.L. was barred from any recovery by its copyright misuse, and included a counterclaim alleging that the ACL was an illegal tying contract under the Sherman Act. (A. 20a)

On March 29, 1979, F.E.L. filed a motion for summary judgment on the copyright infringement counts of its complaint and on the Bishop's antitrust counterclaim. (R. 13) On July 10, 1979, the Catholic Bishop filed a cross-motion for summary judgment solely on the misuse defense. (R. 15, 16) On May 23, 1980, the district court denied F.E.L.'s motion for summary judgment, holding that there were material facts in dispute under F.E.L.'s summary judgment theory.

On January 9, 1981, the District Court granted the Bishop's motion for summary judgment on two grounds: First, the district court held that the ACL unlawfully extended F.E.L.'s copyright monopoly by licensing the not-for-profit religious performances of F.E.L.'s hymns, and by requiring the user either to destroy all copies upon expiration of the license or to pay another $100 for the right to continue to sing the hymns. (A. 30a)

Second, the district court held that the ACL is a tying contract illegal *per se* under *United States* v. *Loew's, Inc.*, 371 U. S. 38 (1962), and *United States* v. *Paramount Pictures*, 334 U. S. 131 (1948): A "church or parish desiring to purchase the right to copy and use some of the listed songs has to pay for permission to use them all." (A. 31a) The district court distinguished *Broadcast Music, Inc.* v. *Columbia Broadcasting Systems, Inc.*, 441 U. S. 1 (1979), ("BMI"), on the ground that that case involved a non-exclusive blanket license developed under provisions of consent decrees: The "consent decrees allowed direct licensing from individual owners" and "this saved" the BMI "licenses from being coercive and hence illegal." (A. 31a)

The Court of Appeals

On March 26, 1982, the Seventh Circuit (Swygert, J.) reversed the summary judgment and *sua sponte* entered judgment for F.E.L. on the copyright misuse issues. The court of appeals acknowledged that under the Copyright Act F.E.L. could not license not-for-profit performances. (A. 4a) Nevertheless, despite express language in the ACL licensing this right and the court's concession that the ACL "could have been drafted more carefully," the court concluded that the ACL licenses "not merely the right to copy, but the right to continue to use the copies by distributing (publishing) the copies to the congregation during services." (A. 7a-9a) Without even mentioning *Loew's* or discussing *Paramount Pictures*, the Seventh Circuit also rejected the application of the *per se* rule. Relying on *BMI*, the court applied a rule of reason analysis to a record undeveloped by a full trial on the merits and decided that the ACL had no anticompetitive effects. The court concluded that a "trial on this issue would add nothing significant to the record" and entered judgment for F.E.L., (A. 13a) despite the fact that F.E.L. had argued that there were material facts in dispute and did not even request this relief on appeal. (Brief and Appendix for Plaintiff Appellant in No. 81-1333 (7th Cir.))

REASONS FOR GRANTING THE WRIT

Certiorari should be granted because the decision of the court of appeals is in direct conflict with prior rulings of this Court and, unless corrected, will seriously erode the copyright misuse doctrine and settled principles of antitrust law and will have a significant impact on the rights of millions of American Catholics seeking to use the music of their choice during worship:

First, the decision below presents an important question of federal copyright law. Since the decision in *Morton Salt* v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942), this Court, in an unbroken line of cases, has held that the unlawful extension of a patent monopoly is a complete defense in a patent infringement case. This Court has never explicitly held that *Morton Salt's* misuse doctrine is applicable to a copyright case though it has stated that *Morton Salt's* principles apply to antitrust cases involving copyrighted works, *United States* v. *Loew's, Inc.*, 371 U. S. 38, 46 (1962).

Some lower courts have followed *Morton Salt* and have held that copyright misuse is a complete defense. *M. Witmark & Sons* v. *Jensen*, 80 F. Supp. 843 (D. Minn. 1948), *appeal dismissed sub nom. M. Witmark & Sons* v. *Berger Amusement Co.*, 177 F. 2d 515 (8th Cir. 1949). Others, like the court below, have refused to follow *Morton Salt* and have declared that copyright misuse is not a complete defense *i.e.*, equities must be weighed. *Alfred Bell & Co.* v. *Catalda Fine Arts, Inc.*, 191 F. 2d 99, 105-106 (2d Cir. 1951); *Stein* v. *Mazer*, 204 F. 2d 472 (4th Cir. 1953), *aff'd on another ground* 347 U. S. 201 (1954). Still others have held that copyright misuse is no defense at all. *E.g., Harms, Inc.* v. *Sansom Enterprises, Inc.*, 162 F. Supp. 129 (E. D. Pa. 1958), *affirmed sub nom. Leo Feist, Inc.* v. *Lew Tandler Tavern, Inc.*, 267 F. 2d 494 (3d Cir. 1959).

One commentator has concluded that the only common thread in these cases is that "the predilection of particular

judges toward one or the other policies [copyright or antitrust] will result in some cases being decided transparently on bias." Gibbs, *Copyright Misuse: Thirty Years Waiting For The Other Shoe*, 23 *ASCAP Copyright Law Symposium* 31, 62 (1977). We submit that the Seventh Circuit's opinion can only be explained on this basis and that this Court will never have a better opportunity to identify definitively the parameters of the copyright misuse doctrine and bring order to this confusion in the lower federal courts.

Second, the decision below is in direct conflict with this Court's decisions that mandatory package licensing is a *per se* violation of Section 1 of the Sherman Act, *United States* v. *Loew's, Inc.*, 371 U. S. 38, 46-50 (1962) and a *per se* misuse of a statutory monopoly. *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U. S. 100, 139 (1969). Here, the ACL is a classic tying contract, and F.E.L.'s uniform rejection of parish requests for per song-per copy licenses establishes the economic coercion that these well-settled *per se* rules were designed to condemn.

Third, the court of appeals' refusal to follow *Loew's* and *Zenith* extends far beyond the parties before the court. Prior to the court of appeals' decision, all publishers in the copy licensing market for English Catholic liturgical music, except F.E.L., offered licenses on a per song-per copy basis for the life of the copy. Now, if other publishers follow F.E.L.'s lead as approved by the Seventh Circuit and offer package licenses only, copyrighted songs will no longer rise or fall on their own merit but on the market power or tying leverage of a publisher's most popular copyrights. More than 22,000 Catholic parishes in the United States will be affected by this destruction of the free copy licensing market.

Finally, the decision below violates petitioner's Seventh Amendment right to trial by jury and directly conflicts with *Fountain* v. *Filson*, 336 U. S. 681 (1949). In *Fountain*, this Court held that a court of appeals may not reverse an award of

summary judgment and *sua sponte* enter judgment for the appellant on a new theory where the appellee had no opportunity to offer evidence disputing the new claim in the trial court. Here, the Seventh Circuit's *sua sponte* entry of judgment for F.E.L. on a rule of reason theory denies the Bishop's right to a jury trial and is contrary to Rule 56 of the Federal Rules of Civil Procedure. The Seventh Circuit's action represents a significant departure from the accepted and usual course of judicial administration and undercuts one of the basic purposes of *per se* rules—to classify certain restraints as illegal without forcing the challenging party to produce extensive evidence regarding their anticompetitive effects.

I. THE SEVENTH CIRCUIT'S DECISION RADICALLY DEPARTS FROM THE MISUSE DOCTRINE AND DIRECTLY CONFLICTS WITH THIS COURT'S DECISIONS IN *LOEW'S, PARAMOUNT PICTURES* AND *ZENITH.*

This Court's decision in *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U. S. 488, 492 (1942) established the principle that the holder of a statutory monopoly cannot enforce his exclusive rights if he has misused the monopoly privilege by exceeding the scope of the statutory grant. The principle is rooted in the public policy of the copyright and patent laws that seeks to promote the arts and sciences and competition by conferring a limited statutory monopoly. 314 U. S. 490-93. That policy regards reward to the owner as a secondary consideration. *United States* v. *Loew's, Inc.*, 371 U. S. 38, 46 (1962). That same policy, *Morton Salt* holds, is subverted when the statutory monopoly is used to secure an additional exclusive right and a greater reward not granted by the statute and "which it is contrary to public policy to grant." 314 U. S. at 492.

The test of misuse is not whether the copyright owner has violated the antitrust laws. 314 U.S. at 490. Misuse, through tying of the statutory monopoly, bars recovery even if no

antitrust violation is proved. *Id.* The test is whether the copyright owner has extended his "exclusive bundle" of rights beyond the strict boundaries of the conferring statute. *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U.S. 661, 665 (1944) and *Id.* at 674 (Opinion of Roberts, J.). The court of appeals ignored all of these principals in entering judgment for F.E.L.

A. Mandatory Package Licenses Are *Per Se* Illegal.

Mandatory package licensing has been condemned consistently as a *per se* misuse of a statutory monopoly, *Zenith Radio Corp.* v. *Hazeltine Research Inc.*, 395 U. S. 100, 139 (1969), and as a tying arrangement that *per se* violates the antitrust laws, *United States* v. *Loew's, Inc.*, 371 U. S. 38 (1963); *United States* v. *Paramount Pictures*, 334 U. S. 131 (1948). Economic analysis of the anticompetitive effects of tie-in licensing, such as that undertaken by Justice Goldberg in *Loew's*, has resulted in a solid front of opinion that an economic lever is added by such arrangements resulting in the subversion of the copyright policy. *See e.g.* Fine, *Misuse and Antitrust Defenses to Copyright Infringement Actions*, 17 Hastings L.J. 315, 335 (1965); Gibbs, *Copyright Misuse: Thirty Years Waiting for the Other Shoe*, 23 ASCAP Copyright Law Symposium 31 (1977).

The court of appeals' conclusion that the "ACL has no anticompetitive effects" and is not a misuse is in direct conflict with the teachings of this Court. In *Loew's* and *Paramount Pictures*, this Court scrutinized a mandatory package license virtually identical in structure to the one in issue here but involving copyrighted films rather than religious music and found it to be *per se* illegal. A copyrighted work "is presumed" to have the requisite economic power as a result of its uniqueness, 371 U.S. at 45-49, and, when included in a tying arrangement, has anticompetitive consequences:

> Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former one and strengthens its monopoly by

drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have. As the District Court said, the result is to add to the monopoly of the copyright in violation of the principle of patent cases involving tying clauses. (371 U. S. at 47, citing *Paramount*, 334 U. S. 158).

1. The ACL Is a Mandatory Package License

In deciding that the ACL was not a tying contract, the court of appeals ignored one central and unassailable fact—that some of F.E.L.'s hymns are much more popular than are others. (A. 32a) The appellate panel also overlooked the fact that Chicago parishes had repeatedly requested permission to copy only a few of F.E.L.'s 1400 copyrighted hymns and that F.E.L. refused to alter its all-or-nothing policy. (A. 32a) Under the ACL "in order to get F.E.L.'s most popular songs, a church must buy inferior songs as well." (A. 9a) Such "refusal to license one or more copyrights unless another is accepted is illegal." *Loew's*, 371 U. S. at 50; *Paramount Pictures*, 334 U. S. at 49-50.

The ACL's anticompetitive impact extends far beyond the parties here and the 22,000 Catholic parishes in the United States. It directly affects F.E.L.'s competitors and composers. Parishes coerced to buy the right to copy F.E.L.'s entire repertoire have less resources to purchase desired music from F.E.L.'s competitors. *Loew's*, 371 U. S. at 49. Parishes refusing to purchase the right to copy all of F.E.L.'s 1400 hymns when only one or two are desired do not pay composer royalties and, thus, "the revenue normally generated by the more desirable [hymns] will be substantially reduced." *Mulvey* v. *Samuel Goldwyn Productions*, 433 F. 2d 1073 (9th Cir. 1970), *cert. denied*, 402 U. S. 923 (1971). If the decision below is allowed

to stand, publishers will no longer have a legal obligation to offer per use licenses and the free market for copy licensing will be destroyed.

This Court has recognized that adherence to *per se* rules is necessitated by "economic prediction, judicial convenience and business certainty." *Arizona* v. *Maricopa County Medical Society*, 50 U. S. L. W. 4687, 4692 (June 18, 1982). "Once experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it, it has applied a conclusive presumption that the restraint is unreasonable." *Id.* at 4690. No *per se* rule is more firmly entrenched (at least until the decision below) than the rule that tying arrangements involving copyrighted works are illegal. Indeed, in *Loew's*, this Court held that it was "difficult to conceive" of a case where the *per se* rule would not apply:

> Accommodation between the statutorily dispensed monopoly in the combination of contents in the patented or copyrighted product and the statutory principles of free competition demands that *extension of the patent or copyright monopoly by the use of tying agreements be strictly confined.* There may be *rare* circumstances in which the doctrine we have enunciated under § 1 of the Sherman Act prohibiting tying arrangements involving patented or copyrighted tying products is inapplicable. However, *we find it difficult to conceive of such a case*, and the present case is clearly not one. 371 U. S. at 50 (emphasis supplied)

By disregarding the *Loew's*, *Paramount Pictures*, and *Zenith* precedents, the Seventh Circuit has effectively undermined this Court's rationale for *per se* rules and rejected 40 years of this Court's jurisprudence.

2. BMI Is Not Applicable

The Seventh Circuit misapplied this Court's holding in *Broadcast Music, Inc.* v. *Columbia Broadcasting System, Inc.*,

441 U. S. 1 (1979) in concluding that the ACL was not a tying contract illegal *per se*. In *BMI*, this Court held that the BMI and ASCAP blanket licenses for the performance of non-dramatic musical compositions were not *per se* illegal *as price fixing agreements*. The principal basis for the decision was that the BMI and ASCAP licenses were necessary to market performance rights which, unlike the copying rights at issue here, could not realistically be negotiated in advance of performance. 441 U. S. at 19-23. Furthermore, because the BMI and ASCAP licenses were regulated by government consent decrees, the licenses placed no restriction on the ability of composers to market separately performance rights to individual hymns, 441 U. S. at 24.

The court of appeals' application of *BMI* to the present case is manifest error for several reasons. First, and most critically, this Court specifically held in *BMI* that copying rights, unlike the performance rights, *"can be negotiated in advance" and "are licensed on an individual basis."* 441 U. S. at 22 n. 37 (emphasis supplied). Here the undisputed record confirms this to be the case. Every Catholic music publisher, except F.E.L., licenses the right to copy music on a per song-per copy basis. (Coughlin ¶ 25.) Since other religious music publishers can license hymns individually, clearly there is no "market necessity" for F.E.L.'s mandatory ACL. The ACL does not create a marketable product where none existed before, as did the *BMI* licenses, but conditions the sale of one existing marketable product on the purchase of another. *Accord Arizona* v. *Maricopa County Medical Society*, 50 U. S. L. W. 4687 (U. S. June 18, 1982).

Second, ASCAP and BMI are mere wholesalers of music—neither organization owns copyrighted works. F.E.L., on the other hand, is the exclusive owner of all 1,400 copyrights. As Justice Stevens observed in *BMI*, under this Court's "prior cases there would be no question about the illegality of the blanket-only policy if ASCAP and BMI were the exclusive sources of all licenses." 441 U. S. at 28. Here,

F.E.L. *is* the "exclusive source of all licenses." Parishes cannot negotiate directly with writers and composers for copying licenses, but must deal with F.E.L. on F.E.L.'s terms—terms which are "all or nothing," the classic tying arrangement.

Third, F.E.L. is not subject to the pervasive regulation of a government consent decree. Prior to the entry of the ASCAP and BMI consent decrees, the licensing organizations' blanket-only licensing policies were held *per se illegal, Alden-Rochelle, Inc.* v. *ASCAP*, 80 F. Supp. 888 (S. D. N. Y. 1948), and a misuse of ASCAP's copyrights. *M. Witmark & Sons* v. *Jensen*, 80 F. Supp. 843 (D. Minn. 1948). Signally, the consent decrees ordered exactly what the Bishop seeks here, the option to negotiate individual per use licenses. *BMI*, 441 U. S. at 11-12.

The Seventh Circuit's statement that "if the district court's conclusions are accepted, this would make the mere offering of a blanket license a *per se* violation of the Sherman Act" fully reflects the lower court's misreading of the law. (A. 13a n. 15.) A blanket license may be valid when it is optional and desired by the licensee. *Automatic Radio Mfg.* v. *Hazeltine Research*, 339 U. S. 827 (1950). Other Catholic publishers offering blanket licenses follow this rule because, without exception, they also offer individual per song-per copy licenses. (Coughlin ¶ 24.) But when, as in the case of F.E.L., the only license offered is a mandatory package license and the licensor refuses to license copying on a per song-per use basis, that is both a coercive tying violation and a misuse of a statutory monopoly. *Zenith Radio Corp.* v. *Hazeltine Research Inc.*, 395 U. S. 100, 138 (1969). *See* Justice Stevens's opinion in *BMI*, 441 U. S. 1, 28-29 (1979) and the Second Circuit's opinion in *BMI* on remand, 620 F. 2d 930, 935-36 (2d Cir. 1980) for a discussion of the *Zenith-Automatic Radio* rule.

The Seventh Circuit's ready and uncritical adoption of *BMI* is but the most recent example of a disturbing trend in the lower federal courts. With ever greater frequency, the lower courts are jettisoning well settled *per se* rules and misreading

this Court's decisions in the mistaken view that in all cases "the Rule of Reason is the preferred method of determining whether a particular practice is in violation of the antitrust law." *Arizona* v. *Maricopa County Medical Society*, 50 U. S. L. W. 4687, 4688, n. 2 (U. S. June 18, 1982) (entering summary judgment on *per se* theory and reversing Ninth Circuit's decision at 643 F. 2d 553 that rule of reason applied). Indeed, the Seventh Circuit's decision is the most far reaching yet because judgment was entered against the Bishop without a trial and the opportunity to present evidence on "the elaborate inquiry into reasonableness of a challenged business practice." *Id.* at 4689.

This Court should grant certiorari to curb this trend and to reaffirm the continuing validity of the *per se* rule of *Loew's*, *Paramount Pictures* and *Zenith*.

B. The ACL Licenses Other Rights Not Granted by the Copyright Law

The court of appeals compounded its error in refusing to follow this Court's tying cases by disregarding the undisputed evidence that F.E.L. is also using its monopoly over the right to copy to extract royalties from nuns and priests for not-for-profit performances of F.E.L.'s music and for copying works in the public domain.

1. Not-For-Profit Performances

The ACL commands nuns and priests to purchase the license if they wish "to perform the music and/or text at not-for-profit performances." (A. 41a) In consideration for the $100 annual fee, Article 4 of the license expressly states:

> 4. *Performance Rights.* F.E.L. grants to USER the right to perform the music and/or text at not-for-profit performances for purposes of worship and/or classroom

use (including related C.C.D., Christian Education, and Sunday School classes) at USER'S premises identified below at Article 18. All public performances for profit are to be cleared through F.E.L.'s performance rights organization: A.S.C.A.P., One Lincoln Plaza, New York, N.Y. 20023.

But the right to perform copyrighted works at not-for-profit religious services is not within the "exclusive bundle of rights" conferred by the copyright law. (A. 4a, 26a-30a) *See* 17 U. S. C. § 110(3). Congress has historically excluded this right from the copyright monopoly because to prohibit such unlicensed performances "would constitute an undue restriction on the benefits which should be available to the public." 2 *Nimmer on Copyright*, § 8.15[A] at 8-144 (1978 ed.). The court of appeals' statement that the ACL "does not license the performance itself" flies in the face of the express language of the license and defeats the intent of Congress. F.E.L.'s extension of its monopoly right to copy to include the licensing of not-for-profit performances is no different than the extension of the term of the patent monopoly by private contract which this Court has condemned. *Brulotte* v. *Thys Company*, 379 U. S. 29 (1964).

The ACL's requirement that copies be destroyed at the end of one year if the license is not renewed confirms that F.E.L. is using the leverage of the right to copy to obtain royalties for not-for-profit performances. (A. 43a, Art. 8) *Even though the holder of an expired ACL does not wish to make additional copies after the first year,* the licensee must pay F.E.L. $100 per year for each year the licensee continues to use F.E.L.'s music in a parish hymnal. *Id.* Inevitably, churches are coerced into renewing their ACLs. Many parishes worked hard and spent a great deal of money on their custom-made hymnals. Faced with the choice of tearing out pages, destroying their hymnals, or paying another $100, they chose to pay $100 a year for the continuing right to perform the music granted in Article 4 of the

ACL. (Newman ¶¶ 7-9, Cullen ¶¶ 9-11, Bredka ¶ 9.) The "reward" F.E.L. obtains after the first year simply "is not related to" its exclusive right to copy. *See United States* v. *Loew's, Inc.*, 371 U. S. 38, 47 (1962).

2. *Public Domain Works*

Usually, parishes copy only the words of F.E.L.'s hymns. In many cases these words are in the public domain (*e.g.* "God Of Our Fathers," "Jesus Christ Has Risen Today," etc.) and F.E.L. only claims copyrights on new music arrangements. (A. 22a) Yet, Article 6 of the ACL directs that "even when the words alone are copied" (*i.e.* words in the public domain), copyright acknowledgements must be given *"since the composer's melody will be sung from memory rather than music notation."* (A. 42a) Indeed, F.E.L.'s financial statements show, and F.E.L.'s chief financial officer admitted, that F.E.L. collected royalties on this public domain material. (A. 22a; Boyd Dep. at 31-32; Dx D, FEL-PD entries.) This evidence proves that F.E.L. is collecting royalties not only for not-for-profit performances but also for copying public domain works—another classic misuse. *Mercoid Corp.* v. *Mid-Continent*, 320 U. S. 661 (1944) (misuse to exact license fee for public domain works).

Even the court of appeals recognized that F.E.L. had no legal right to "compel parishes to put a copyright for musical notes on words in the public domain." (A. 11a n. 11.) But this is exactly what unsophisticated nuns and priests are commanded to pay for by F.E.L. The court of appeals' conclusion that F.E.L.'s conduct is inconsequential because "dismissal of a copyright claim for misuse is an equitable defense which requires a balancing of equities" is a complete misreading of *Morton Salt*. *Id.* No such balancing is required by the misuse doctrine. The policy behind the misuse doctrine is so strong that, unlike the ordinary case of unclean hands, misuse bars suit

even against the most blatant thief "regardless of whether the particular defendant has suffered from the misuse." *Morton Salt* v. *G.S. Suppiger Co.*, 314 U. S. 488, 493-94 (1942).

II. THE SEVENTH CIRCUIT'S *SUA SPONTE* VALIDATION OF THE ACL UNDER THE RULE OF REASON VIOLATES THE BISHOP'S RIGHT TO TRIAL BY JURY AND DIRECTLY CONFLICTS WITH THIS COURT'S DECISION IN *FOUNTAIN* v. *FILSON*

The court of appeals acknowledged that the district court "did not evaluate the ACL under the rule of reason." (A. 13a.). The Bishop's motion for summary judgment in the district court was premised solely on the theory that the ACL was a *per se* misuse. (A. 26a) Under this Court's decisions, once tying arrangements are found in the context of sufficient economic power, the arrangements are illegal "without elaborate inquiry as to ... the business excuse for their use," *Northern Pacific Railway Co.* v. *United States*, 356 U. S. 1, 5 (1958). Accordingly, the Bishop did not believe he had to offer and did not marshal evidence to rebut F.E.L.'s purported justifications for the ACL on a rule of reason theory.

The court of appeals' reversal and *sua sponte* entry of judgment on a rule of reason theory for F.E.L. without a trial is in direct conflict with this Court's decision in *Fountain* v. *Filson*, 336 U. S. 681 (1949) and denies the Bishop his Seventh Amendment right to a trial by jury on the antitrust issues. In *Fountain*, this Court held that Rule 56 of the Federal Rules of Civil Procedure barred a court of appeals from reversing a summary judgment for an appellee and entering summary judgment for the appellant "on a new issue as to which the opposite party had no opportunity to present a defense before the trial court." 336 U. S. at 683. The court of appeals' decision here is especially bizarre because F.E.L.'s entire defense on appeal was that the "adequacy" of F.E.L.'s alternatives to the ACL was a contested issue of fact that barred summary

judgment for the Bishop. (F.E.L. Reply Br. at 9). In short, the court of appeals granted F.E.L. relief it did not even seek on appeal.

The court of appeals' decision completely departs from the proper treatment of cross-motions for summary judgment under Rule 56. As the Third Circuit has held:

> Cross-motions are no more than a claim by each side that it alone is entitled to summary judgment, and the making of such inherently contradictory claims does not constitute an agreement that if one is rejected the other is necessarily justified or that the losing party waives judicial consideration and determination whether genuine issues of material fact exist. If any such issue exists it must be disposed of by a plenary trial and not on summary judgment.

Rains v. *Cascade Indus. Inc.*, 402 F. 2d 241, 245 (3rd Cir. 1968).

The Bishop believed and still believes that he is entitled to summary judgment on a *per se* theory. F.E.L.'s officers admitted F.E.L.'s "all or nothing" licensing policy and that F.E.L.'s printed publications and the one-time-use license are not alternatives to the right to copy hymns for permanent custom-made hymnals. (*E.g.*, DX J, Cook at 33.) Indeed, F.E.L.'s financial statements confirmed that printed publications were not substitutes for the right to copy (DXD), and the economics of the hymnal market showed that printed publications and the one-time-use license did not offer parishes a genuine economic choice to the ACL.[4] Once F.E.L. decided to

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[4] To purchase 500 printed song sheets of one F.E.L. song for 500 hymnals would cost $500 (and would, in all likelihood, be completely incompatible with the format of parish hymnals). In stark contrast, the $.02 per copy, per song copying license offered by other publishers costs a mere $10—a difference of $490. Similarly, taking a one-time-use license 52 times per year would cost at least $520 ($.02 per copy × 500 copies × 52 weeks). Such costs alone prevent sheet music and one-time-use licenses from being viable alternatives to copying rights. The prohibition against tie-ins cannot be evaded by making the desired material "separately available" at prices beyond the users' reach. *United States* v. *Loew's, Inc.*, 371 U. S. 38, 54 (1962);

Footnote continued on following page.

compete in the copy licensing market, it, like all the other publishers, had to compete in compliance with the antitrust laws. *See generally Greyhound Computer Corp.* v. *IBM Corp.*, 559 F. 2d 488, 492-96 (9th Cir. 1977), *cert. denied*, 434 U. S. 1040 (1978) (leasing and selling are separate markets).

At the very least, if the Bishop is now held to a rule of reason standard, this record creates genuine issues of material fact. All reasonable inferences therefrom must be viewed most favorably to the Bishop. The Bishop is entitled to a trial in order to make a full record on the "elaborate inquiry into the reasonableness of the challenged practice." *Arizona* v. *Maricopa County Medical Society*, 50 U. S. L. W. 4687, 4689 (U. S. June 18, 1982). The court of appeals reversal without remand denies the Bishop this fundamental constitutional right.

Finally, the court of appeals' departure from proper procedure is especially inappropriate in an antitrust case. Requiring an antitrust litigant who moves for summary judgment on a *per se* theory to prove simultaneously the more "difficult" rule of reason theory undermines one of the principal purposes of *per se* rules—to strike down certain restraints *without* "elaborate inquiry." *Id.* This Court should grant certiorari to reaffirm the sound principles of *Fountain* v. *Filson* and to correct the court of appeals' complete departure from the rules of fairness and proper procedure.

Footnote continued from preceding page.

Advanced Business Systems & Supply Co. v. *SCM Corp.*, 415 F. 2d 55, 62 (4th Cir. 1969); *United States v. ASCAP*, 1940-43 Trade Cas. (CCH) ¶ 56,104 (S.D. N.Y. 1941) (consent decree), *amended*, 1950-51 Trade Cas. (CCH) ¶ 62,595 (S.D. N.Y. 1950) (must have a *genuine* economic choice between per program and blanket licenses).

CONCLUSION

For the foregoing reasons, this Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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